

Memorandum

To: Panel Members

Date: August 21, 2003

From: Creighton Chan, Manager for
Peter DeMauro, General Counsel

Analyst: D. Woodside

Subject: One-Step Agreement for **Cost Plus, Inc.**
(www.costplus.com)

CONTRACTOR:

- Training Project Profile: Retraining: Companies with Out-of-State Competition
- Legislative Priorities: Stimulating Imports/Exports
Moving to a High Performance Workplace
- Type of Industry: Retail/Headquarters Only
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 1,845
 - In California: 925
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union
representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$28,665
- Substantial Contribution: \$0
- Total ETP Funding: \$28,665
- In-Kind Contribution: \$202,000
- Reimbursement Method: Fixed-Fee
- County Served: Alameda
- Duration of Agreement: 24 Months

SUBCONTRACTORS:

JDA Software Group, Inc. (Campbell, CA) approximately \$95,960 for Computer Skills training.

THIRD PARTY SERVICES:

Ernst & Young LLP assisted with the completion of the application documents for a flat rate of \$5,000.

NARRATIVE:

Cost Plus, Inc., and its subsidiary, Cost Plus Management Services, Inc., are eligible for Panel funding under the out-of-state competition provisions outlined in Title 22, California Code of Regulations, Section 4416(d)(1) for the internal corporate support functions provided by the Oakland headquarters for Cost Plus, Inc., retail locations both inside and outside of California.

Cost Plus, Inc., is a specialty retailer of casual home living and entertaining products. The company was founded 40 years ago when a San Francisco businessman parlayed a passion for travel into an import business. In 1958, the first Cost Plus store opened on Fisherman's Wharf in San Francisco. In 1996, the Company completed an initial public offering and trades on the NASDAQ national market under the symbol CPWM. Cost Plus, Inc. has four wholly owned subsidiaries. Proposed ETP trainees work at the corporate headquarters location and may be employees of Cost Plus, Inc. or Cost Plus Management Services, Inc., one of its subsidiaries.

As of June 2003, the company operated 184 stores in 23 states under the names "World Market", "Cost Plus World Market", "Cost Plus" and "Cost Plus Imports." There are currently 52 stores operating in California. Cost Plus product offerings include home decorating items, gifts and accessories as well as gourmet foods and beverages. The company's business strategy is to differentiate itself from other retailers by offering a large and ever-changing selection of unique products, many of which are imported, at value prices in an exciting shopping environment. Cost Plus, Inc.'s headquarters is located in Oakland, California, and a distribution center is located in Stockton, California. The company employs 925 full-time employees in California. There are 277 employees at the corporate headquarters location in Oakland. This request for ETP funding is to retrain 45 employees from the headquarters location.

According to company statements, in fiscal year 2002, Cost Plus invested over \$19 million in new equipment. Approximately \$7 million of this was for computers and software expenses and a large portion of this expense was to strengthen distribution management. Each of the company's stores is linked to the Cost Plus headquarters in Oakland through a point-of-sale system and frame relay data network. The information systems keep records of each item sold in each store, as well as financial, sales and inventory information.

To improve its competitive position in the marketplace and provide employee job security, Cost Plus must find innovative ways to source, develop, and sell products that shoppers cannot find at other retailers. Doing this successfully requires a clear sense of market trends and listening to customers, coupled with a great deal of creativity and insight from buyers and product development teams. Cost Plus realizes that to stay competitive, its frontline workers involved in buying, planning, and merchandising must anticipate customer needs through the use of technology and be able to make decisions quickly. The upgrade of planning, merchandise selection, and inventory allocation systems,

NARRATIVE: (continued)

including computer software and hardware, and the associated training are critical to the growth of Cost Plus's business. The ETP-funded training will also support the company's adaptation to a high performance workplace wherein employees can utilize customized software to make decisions and improvements resulting in greater customer satisfaction. All trainees, including buyers, analysts, specialists, and merchandise managers will receive 24 to 64 classroom/laboratory hours depending on their skill level and job requirements.

Computer Skills

The proposed customized versions of "Arthur Planning", "Arthur Assortment Planning", "Advanced Warehouse Replenishment", "Arthur Channel Planning" and "Arthur PA Web" software systems implementation and training will provide corporate headquarters employees with the tools and "best practices" to be successful at retail planning, merchandise selection and inventory optimization. Employees will learn advanced decision making tools and techniques, and software skills to create accurate forecasts in product demand and order projections as well as stable order patterns through computer assisted ordering techniques. Cost Plus also plans application upgrades in its computer system requiring retraining in Microsoft Office Suite, Outlook, Access, data management, web applications, programming languages, and performance and analysis tools.

Supplemental Nature of Training

Cost Plus is committed to maintaining its on-going training program. Last year, the company spent approximately \$100,000 dollars on training (not including wages) for new hire orientation and training, basic computer skills training, and specialized department training. Cost Plus will continue to provide this ongoing training at its own expense during the term of the ETP contract and beyond. The proposed ETP funds will not displace existing training funds, but will allow the company to provide more classroom/laboratory training on-site in coursework that has never been provided to a significant number of frontline workers. Prior computer skills training was limited to infrequent training sessions provided to a small number of employees.

In-Kind Contribution

Cost Plus, Inc.'s total in-kind contribution will be approximately \$202,000. Training costs, including trainer salaries and related expenses, which exceed ETP reimbursement will be approximately \$105,500. The company expects to pay approximately \$97,000 in employee wages during ETP training.

COMMENTS:

Of the 45 trainees in the training plan, 40 meet the Panel definition of frontline worker under Title 22, California Code of Regulations, Section 4400(ee). The remaining five managers constitute ten percent of the total trainee population.

Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services, which will ultimately be sold.

PROPOSED ACTION:

Staff recommends that the Panel approve this Agreement if funds are available and the project meets Panel priorities. This recommendation is based on the company's stated goal to expand markets, improve competitiveness, and promote long-term job stability for its employees at its headquarters in Oakland, California. In addition, the success of this retraining effort will enhance the company's viability as a major retailer in California.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Average Cost per Trainee	Hourly Wage after 90 days
Job Number 1 Retrainees	Computer Skills	45	24 – 64	0	N/A	\$637	\$16.80- \$76.92
					<u>Range of Hourly Wages</u> \$16.80 - \$76.92		
					<u>Prevalent Hourly Wage</u> \$31.25		
					<u>Average Cost per Trainee</u> \$637		
<u>Health Benefit used to meet ETP minimum wage:</u> Although the employer pays health benefits for its employees, the hourly contribution is not being used to meet the ETP minimum wage.					<u>Turnover Rate</u> 16%	<u>% of Mgrs & Supervisors to be trained:</u> 10%	

Cost Plus, Inc.

Menu Curriculum

Class/Lab

24-64

Trainees will receive any of the following courses:

COMPUTER SKILLS

Customized versions of the following business software :

- ARTHUR PLANNING - Integrated merchandise planning system application
 - Overview of Planning
 - The Planning User Interface
 - Understanding Data Entry
 - Understanding Calculation Methods
 - Using the Chartsheet
 - Managing by Exceptions
 - Customizing Views
- ARTHUR ASSORTMENT PLANNING – Strategic merchandise selection application
 - Understanding Assortment Planning
 - Assortment Definition
 - Target Setting
 - Builder Basics
 - Attribute Assignment
 - Attribute Profile
 - Level Profiles
 - Calculation Methods
 - Filters, Sorting and Arrangement
 - Review
 - Consolidations
- ARTHUR ADVANCED WAREHOUSE REPLENISHMENT-
 - Optimizing Inventory Levels
 - Introduction to Wholesale Replenishment
 - Seven Principles of Buying
 - Moving Around
 - Setting Up Vendors
 - History Exception Reporting
 - Level 1 Certification Testing
 - Introduction to Reports

- ARTHUR CHANNEL PLANNING
 - Channel Planning Concepts
 - Company Opportunity Planning
 - Detail Channel Planning
 - Opportunity Planning
 - Multi-Balancing
 - Grading and Templates
 - Benchmark Planning
 - Annualization of Plans
- ARTHUR PERFORMANCE ANALYZER WEB PLANNING
 - Overview
 - Using Performance Analyzer Web System
 - Creating Exceptions
 - Topic and Report Interface
 - View Manager
 - Creating a Performance Analyzer Web View
 - Scripting and Installation
 - Basic Hyper Text Markup Language (HTML) Concepts

Other Computer Skills:

- Microsoft Office Suite
 - Microsoft Word
 - Microsoft Excel
 - Microsoft Access
 - Microsoft PowerPoint
- Microsoft Outlook
- Intermediate and advanced spreadsheet, word processing, charting, planning and presentation applications
- Project and systems planning
- Web tools management
- Financial systems processes and applications